

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Sebewaing	County Huron
Fiscal Year End 3/31/06	Opinion Date 7/13/2006	Date Audit Report Submitted to State 9/22/2006	

We affirm that:

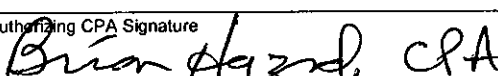
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No letter of recommendations	
Other (Describe) Single Audit Reports	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-883-3122	
Street Address 41 E Main Street		City Sebewaing	State MI
		Zip 48759	
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA	License Number 1101014007

**VILLAGE OF SEBEWAING
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2006**

VILLAGE OF SEBEWAING, MICHIGAN

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VILLAGE OF SEBEWAING, MICHIGAN

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Village Council
Village of Sebewaing
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sebewaing, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Sebewaing, Michigan management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sebewaing, Michigan, as of March 31, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2006, on our consideration of the Village of Sebewaing, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Report of Independent Auditors (Continued)

The management's discussion and analysis and budgetary comparison information on pages iii through viii and 32 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Sebewaing, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Village of Sebewaing, Michigan. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel, PC

NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

July 13, 2006

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

This overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2006 is offered in conjunction with the Village's financial statements.

This overview also includes statements from the Sebewaing Light and Water Department as part of the Business-type activities.

Financial Highlights

- The combined assets of the Village exceeded its liabilities at the close of the fiscal year by \$17,187,604.
- The Village of Sebewaing's total net assets increased by \$2,129,379. The governmental activities increased by \$1,897,741 and the business-type activities increased by \$231,638.
- At the close of the fiscal year, the Village's Governmental funds reported a combined ending fund balance of \$772,586. The combined net assets for the Business-type activities and the Internal Service Fund were \$13,690,458.

Using This Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Village. The financial statements provide information about the activities of the Village as a whole and will present a long term view of the overall finances of the Village.

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

The Village as a Whole

The table below shows the comparison of net assets, in a condensed format, as of March 31, 2006 to the prior year:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>
Assets				
Current Assets	\$ 885,730	\$ 933,835	\$ 6,476,240	\$ 6,484,603
Restricted Assets	60,876	58,950	1,550,048	1,534,099
Net Capital Assets	2,806,556	865,537	5,995,850	5,798,213
Other Assets	69,710	78,616	10,979	12,747
Total Assets	<u>3,822,872</u>	<u>1,936,938</u>	<u>14,033,117</u>	<u>13,829,662</u>
Liabilities				
Current Liabilities	20,528	39,848	228,910	251,285
Long Term Debt	59,101	51,588	359,846	365,654
Total Liabilities	<u>79,629</u>	<u>91,436</u>	<u>588,756</u>	<u>616,939</u>
Net Assets				
Capital Assets	2,806,556	865,537	5,730,850	5,508,213
Restricted Assets	60,877	58,950	1,550,048	1,534,099
Unrestricted assets	875,810	921,015	6,163,463	6,170,411
Total Net Assets	<u>\$3,743,243</u>	<u>\$1,845,502</u>	<u>\$13,444,361</u>	<u>\$13,212,723</u>

	<u>Total</u>	
	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>
Assets		
Current Assets	\$7,361,970	\$7,418,438
Restricted Assets	1,610,924	1,593,049
Net Capital Assets	8,802,406	6,663,750
Other Assets	80,689	91,363
Total Assets	<u>17,855,989</u>	<u>15,766,600</u>
Liabilities		
Current Liabilities	249,438	291,133
Long Term Debt	418,947	417,242
Total Liabilities	<u>668,385</u>	<u>708,375</u>
Net Assets		
Capital Assets	8,537,406	6,373,750
Restricted Assets	1,610,925	1,593,049
Unrestricted Assets	7,039,273	7,091,426
Total Net Assets	<u>\$17,187,604</u>	<u>\$15,058,225</u>

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

The Village's combined net assets increased from \$15,058,225 a year ago, to \$17,187,604.

Unrestricted net assets – the part of net assets that can be used to finance the day-to-day operations ended the fiscal year with a balance of \$875,810 for Governmental Activities.

The following table shows the changes in net assets as of March 31, 2006 and the prior year :

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>	<u>March 31,</u> <u>2006</u>	<u>March 31,</u> <u>2005</u>
Revenues				
Charges for Services	\$ 84,417	\$ 84,378	\$ 3,397,512	\$ 3,145,415
Operating Grants and Contributions	16,047	1,036	9,000	9,000
Capital Grants and Contributions	1,959,205			
Property Taxes	514,467	511,300	96,374	115,757
State Shared Revenues	411,498	381,591	10,148	10,148
Investment Earnings	26,824	17,386	193,188	131,266
Miscellaneous	36,355	39,266	25,938	25,253
Gain (loss) on Sale of Capital Assets	(400)	(6,051)		9,331
Transfers – net	(41,915)	(36,593)	35,915	36,593
Total revenues and Transfers	<u>3,006,498</u>	<u>992,313</u>	<u>3,768,074</u>	<u>3,482,763</u>
Program Expenses				
General Government	171,993	167,633		
Public Safety	362,952	304,712		
Highway and Public Improvements	407,345	323,341		
Sanitation	71,590	68,240		
Parks and Recreation	85,949	90,425		
Sewer			340,192	231,343
Water and Sewer Projects			30,598	32,100
Light and Water			3,165,646	3,006,941
Unallocated Depreciation	<u>8,928</u>	<u>8,611</u>		
Total Expenses	<u>1,108,757</u>	<u>962,962</u>	<u>3,536,436</u>	<u>3,270,384</u>
Change in Net Assets	1,897,741	29,351	231,638	212,379
Net Assets -				
Beginning of Year	<u>1,845,502</u>	<u>1,816,151</u>	<u>13,212,723</u>	<u>13,000,344</u>
Net Assets – End of Year	<u>\$3,743,243</u>	<u>\$1,845,502</u>	<u>\$13,444,361</u>	<u>\$13,212,723</u>

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

	<u>March 31,</u> <u>2006</u>	<u>Total</u> <u>March 31,</u> <u>2005</u>
Revenues		
Charges for Services	\$ 3,481,928	\$ 3,229,793
Operating Grants and Contributions	25,047	10,036
Capital Grants and Contributions	1,959,205	
Property Taxes	610,841	627,057
State Shared Revenues	421,646	391,739
Investment Earnings	220,012	148,652
Miscellaneous	62,293	64,519
Gain (loss) on Sale of Capital Assets	(400)	3,280
Transfers - net	(6,000)	
Total revenues and transfers	<u>6,774,572</u>	<u>4,475,076</u>
Program Expenses		
General Government	171,993	167,633
Public Safety	362,952	304,712
Highway and Public Improvements	407,345	323,341
Sanitation	71,590	68,240
Parks and Recreation	85,949	90,425
Sewer	340,192	231,343
Water and Sewer Projects	30,598	32,100
Light and Water	3,165,646	3,006,941
Unallocated Depreciation	<u>8,928</u>	<u>8,611</u>
Total Expenses	<u>4,645,193</u>	<u>4,233,346</u>
Change in Net Assets	2,129,379	241,730
Net Assets - Beginning of Year	<u>15,058,225</u>	<u>14,816,495</u>
Net Assets - End of Year	<u>\$17,187,604</u>	<u>\$15,058,225</u>

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

Governmental Activities

The Village's total governmental revenues increased by \$2,014,185 due to capital grants received to finance infrastructure improvements in the Village's streets. Expenses increased by \$145,795 or 15 percent, over the last fiscal year. This increase was also related primarily to the street project that took place during the fiscal year. During the year, the Village continued meeting the actuarial required contributions for its defined benefit pension system. This is important for the Village since future taxpayers should not be required to fund benefit payments that were earned in the current period.

Business-type Activities

The Village's business-type activities consist of the Light and Water, Sewer and M-25 Water and Sewer Funds. The Village provides electricity, water and sewer to its residents and to some Township residents by Village-owned and operated systems.

The Light and Water Fund had a net income of \$209,551 and its cash flow increased by \$75,570.

The Sewer Fund had a net income of \$904 on revenues of \$300,032. Revenues were down from the prior year because of the elimination of the sewer mills levied on the property taxes. Cash flow for the Sewer Fund decreased \$64,082 due mainly to maintenance of the system.

The Village's Funds

Our analysis of the Village's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for the current year were the General Fund and the Capital Project Fund.

The General Fund pays for most of the Village's governmental services. The most significant are Public Safety, General Government, Public Services, and Parks and Recreation, which incurred expenditures of \$777,400 in the current fiscal year. These costs are funded by real and personal property taxes and other general revenue sources of the General Fund.

The Capital Project Fund was used to account for the proceeds of the federal and state grants received to finance the improvements to the Village's street system. The amount of the grants totaled \$1,959,205 including local matching funds from the Township of Sebewaing in the amount of \$117,356. The capital expenditures to improve the street system totaled \$2,039,212.

General Fund Budgetary Highlights

Overall, revenues in the General Fund fell short of the budget by \$4,101. The Village's state revenue sharing was \$18,000 less than the budgeted amount, but miscellaneous revenues were \$15,000 more than the budgeted amount. Village departmental expenses in the General Fund overall spent less than budget projections by \$31,972.

VILLAGE OF SEBEWAING, MICHIGAN

Management's Discussion and Analysis March 31, 2006

Capital Asset and Debt Administration

As of March 31, 2006, the Village had a total of approximately \$8.8 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, equipment and electric, water and sewer lines.

Bonded debt was reduced by \$30,000.

More detailed information concerning capital assets and long-term debt can be found in Notes 1 and 6, respectively, in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Increasing the capacity of the Village's lagoon system is in the Village's future. With the capital cost of an additional cell to the system, the Village's sewer rates were studied. The sewer rate structure was revised to a water consumption and ready to serve charge to customers of the sewer system instead of the unit charge that has been in place since 1972. The revenues received for the March 31, 2006 budget were not as high as budgeted, with a shortfall of \$69,000. After a rate study, there was another rate increase, effective May 1, 2006.

The construction phase of the street improvements, in the Village's downtown area around the Lapeer Metal Stamping plant, were completed. This project included street improvements and curb and gutter, improvements to the water lines, sewer system, and electrical system. Funding for this project was through a Michigan Department of Transportation Grant of \$941,030, a Community Development Block Grant from Michigan Economic Development Corporation of \$1,250,000 and local funds of \$280,000. The project will be completed during the fiscal year ending March 31, 2007.

The Village will be constructing a new sewer lift station. The cost estimate is \$350,000. There is no grant funding available for this project so the Sewer Fund will be funding this project through the increased sewer rates and the sewer fund balance.

Due to the age of the Sanitary Sewer System, constructed in 1972, the Village started a four year program to video inspect the entire sanitary sewer system in 2005. The Village has budgeted \$20,000 for 2006 and will budget \$20,000 for 2007 for these inspections. In 2005, the Village relined 2,500 linear feet of sanitary sewer main at a cost of approximately \$110,000. For 2006, the Village will reline an additional 1,150 linear feet of sewer main for \$45,000. The costs for any relining that may be required, as a result of the video inspections, will be included in the 2007-2008 budget.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village Office, at 108 W. Main Street, Sebewaing, Michigan 48759.

BASIC FINANCIAL STATEMENTS

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF NET ASSETS
MARCH 31, 2006**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<u>ASSETS</u>			
Cash and deposits	\$ 519,067	\$ 3,846,673	\$ 4,365,740
Investments	237,886	2,025,817	2,263,703
Accounts receivable	50,595	101,834	152,429
Accrued interest receivable	998	23,323	24,321
Inventory		397,643	397,643
Prepaid insurance	47,272	79,652	126,924
Internal balances	(1,298)	1,298	
Due from Harbor Commission	31,210		31,210
Restricted assets:			
Cash and deposits	17,926	1,450,176	1,468,102
Investments	42,950	99,872	142,822
Nondepreciated capital assets	164,223	285,104	449,327
Capital assets	3,461,665	12,175,147	15,636,812
Less accumulated depreciation	(887,967)	(6,595,847)	(7,483,814)
Construction in progress	68,635	131,446	200,081
Investment in Sebewaing Harbor Commission	69,710		69,710
Bond issue costs		40,674	40,674
Less accumulated amortization		(29,695)	(29,695)
<u>TOTAL ASSETS</u>	<u>3,822,872</u>	<u>14,033,117</u>	<u>17,855,989</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF NET ASSETS
MARCH 31, 2006**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTALS</u>
LIABILITIES:			
Accounts payable	6,727	191,030	197,757
Accrued payroll taxes	3,649	3,678	7,327
Accrued payroll	10,152	10,433	20,585
Compensated absences	59,101	94,846	153,947
Deferred revenue		5,074	5,074
Customer deposits		17,150	17,150
Payable from restricted assets:			
Accrued interest payable		1,545	1,545
General obligation bonds payable		265,000	265,000
TOTAL LIABILITIES	<u>79,629</u>	<u>588,756</u>	<u>668,385</u>
NET ASSETS:			
Invested in capital assets, net of related debt	2,806,556	5,730,850	8,537,406
Restricted for:			
Debt service		73,728	73,728
Capital projects	60,877	1,476,320	1,537,197
Unrestricted	875,810	6,163,463	7,039,273
TOTAL NET ASSETS	<u>\$ 3,743,243</u>	<u>\$ 13,444,361</u>	<u>\$ 17,187,604</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN

STATEMENT OF ACTIVITIES YEAR ENDED MARCH 31, 2006

	PROGRAM REVENUES			NET (EXPENSE) REVENUES & CHANGES IN		
	CHARGES FOR SERVICES	OPERATING		NET ASSETS		TOTALS
		GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
EXPENSES						
Governmental Activities:						
General government	\$ 171,993	\$ 15,830		\$ (156,163)		\$ (156,163)
Public safety	362,952			(362,397)		(362,397)
Highways and public improvements	407,345		\$ 1,959,205	1,561,434		1,561,434
Sanitation	71,590			958		958
Parks and recreation	85,949	217		(83,992)		(83,992)
Unallocated depreciation	8,928			(8,928)		(8,928)
Total governmental activities	1,108,757	16,047	1,959,205	950,912		950,912
Business-Type Activities:						
Sewer	340,192				\$ (45,235)	(45,235)
Water & sewer projects	30,598	9,000			(21,164)	(21,164)
Light & water	3,165,646	9,000			(63,526)	(63,526)
Total business-type activities	3,536,436	9,000			(129,925)	(129,925)
Total Government	\$ 4,645,193	\$ 25,047	\$ 1,959,205	950,912	(129,925)	820,987
General Revenue:						
Property taxes				514,467	96,374	610,841
State shared revenues				411,498	10,148	421,646
Unrestricted investment earnings				26,824	193,188	220,012
Miscellaneous				36,355	25,938	62,293
Gain (loss) on sale of capital assets				(400)		(400)
Transfers - net				(41,915)	35,915	(6,000)
Total general revenues and transfers				946,829	361,563	1,308,392
Change in net assets				1,897,741	231,638	2,129,379
Net assets - beginning				1,845,502	13,212,723	15,058,225
Net assets - ending				\$ 3,743,243	\$ 13,444,361	\$ 17,187,604

The accompanying notes are an integral part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2006**

	<u>GENERAL</u>	<u>CAPITAL PROJECT FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and deposits	\$ 249,949	\$ 1,445	\$ 130,122	\$ 381,516
Investments	145,089		83,025	228,114
Accounts receivable	23,785		26,810	50,595
Accrued interest receivable	733		265	998
Prepaid insurance	31,880		7,925	39,805
Due from Harbor Commission	31,210			31,210
Due from other funds			222	222
Restricted assets:				
Cash	17,926			17,926
Investments	42,950			42,950
TOTAL ASSETS	<u>\$ 543,522</u>	<u>\$ 1,445</u>	<u>\$ 248,369</u>	<u>\$ 793,336</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES:</u>				
Accounts payable	\$ 6,727			\$ 6,727
Due to other funds			\$ 222	222
Withheld and accrued payroll taxes	3,649			3,649
Accrued payroll	10,152			10,152
TOTAL LIABILITIES	<u>20,528</u>		<u>222</u>	<u>20,750</u>
<u>FUND BALANCES:</u>				
Unrestricted, reported in:				
General Fund	462,117			462,117
Special Revenue Funds			248,147	248,147
Capital Project Fund		\$ 1,445		1,445
Restricted, reported in:				
General Fund	60,877			60,877
TOTAL FUND BALANCES	<u>522,994</u>	<u>1,445</u>	<u>248,147</u>	<u>772,586</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 543,522</u>	<u>\$ 1,445</u>	<u>\$ 248,369</u>	<u>\$ 793,336</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN
RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
MARCH 31, 2006

Total governmental fund balances	\$ 772,586
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$3,694,523 less the accumulated depreciation of \$887,967.	2,806,556
Internal service fund is not included in the governmental funds.	153,492
Investment in Sebewaing Harbor Commission (a joint venture) is not included in the governmental funds.	69,710
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(59,101)
Net assets - governmental activities	<u>\$ 3,743,243</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2006**

	<u>GENERAL</u>	<u>CAPITAL PROJECT FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:				
Taxes	\$ 355,690		\$ 126,326	\$ 482,016
Licenses and permits	880			880
Intergovernmental	263,584	\$ 1,959,205	200,580	2,423,369
Fines	7,469			7,469
Charges for services	72,548			72,548
Miscellaneous	48,068		10,432	58,500
TOTAL REVENUE	<u>748,239</u>	<u>1,959,205</u>	<u>337,338</u>	<u>3,044,782</u>
EXPENDITURES:				
Current:				
General government	171,149			171,149
Public safety	343,302			343,302
Public services	138,617			138,617
Highways and streets		2,039,212	259,009	2,298,221
Parks and recreation	51,315			51,315
Capital outlay	73,017			73,017
TOTAL EXPENDITURES	<u>777,400</u>	<u>2,039,212</u>	<u>259,009</u>	<u>3,075,621</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(29,161)</u>	<u>(80,007)</u>	<u>78,329</u>	<u>(30,839)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	11,600	81,452	230,000	323,052
Operating transfers out	(35,915)		(323,053)	(358,968)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(24,315)</u>	<u>81,452</u>	<u>(93,053)</u>	<u>(35,916)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>(53,476)</u>	<u>1,445</u>	<u>(14,724)</u>	<u>(66,755)</u>
FUND BALANCE - BEGINNING	<u>576,470</u>		<u>262,871</u>	<u>839,341</u>
FUND BALANCE - ENDING	<u>\$ 522,994</u>	<u>\$ 1,445</u>	<u>\$ 248,147</u>	<u>\$ 772,586</u>

VILLAGE OF SEBEWAING, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006**

Net change in fund balances - governmental funds **\$ (66,755)**

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the
Statement of Activities, assets with an initial, individual cost of more than
\$1,000 are capitalized and the cost is allocated over their estimated useful
lives and reported as depreciation expense. This is the amount by which
capital outlays exceeded depreciation in the current period.

Capital outlays	\$ 2,053,019	
Depreciation expense	<u>(66,227)</u>	
		1,986,792

The net expense of certain activities of internal service fund is reported with governmental activities.	(5,478)
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The increase in accrued compensated absences is not reported with governmental activities.	(7,512)
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Sales of capital assets are not recorded in the governmental funds.	(400)
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Equity method loss recognized from the Sebewaing Harbor Commission.	(8,906)
---	---------

Change in net assets of governmental activities	<u>\$ 1,897,741</u>
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VILLAGE OF SEBEVING, MICHIGAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
MARCH 31, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS	
ASSETS					
CURRENT ASSETS:					
Cash and deposits	\$ 675,823		\$ 3,170,850	\$ 3,846,673	\$ 137,552
Investments	147,118		1,878,699	2,025,817	9,771
Accounts receivable	50,070	\$ 2,429	49,335	101,834	
Accrued interest receivable	2,481		20,842	23,323	
Inventory	3,278		394,365	397,643	
Prepaid insurance	4,848		74,804	79,652	7,468
TOTAL CURRENT ASSETS	883,618	2,429	5,588,895	6,474,942	154,791
NONCURRENT ASSETS:					
Restricted assets					
Cash and deposits	217,198	232,978	1,000,000	1,450,176	
Investments	90,520	9,352		99,872	
Capital assets	2,542,826	419,844	9,629,027	12,591,697	458,272
Less: accumulated depreciation	(1,459,482)	(136,566)	(4,999,799)	(6,595,847)	(365,668)
Bond issue costs		40,674		40,674	
Less: Accumulated amortization		(29,695)		(29,695)	
TOTAL NONCURRENT ASSETS	1,391,062	536,587	5,629,228	7,556,877	92,604
TOTAL ASSETS	2,274,680	539,016	11,218,123	14,031,819	247,395

VILLAGE OF SEBASTIAN, MICHIGAN

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
MARCH 31, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS	
LIABILITIES					
CURRENT LIABILITIES:					
Accounts payable	8,618		182,412	191,030	
Accrued payroll taxes			3,678	3,678	
Accrued payroll	2,190		8,243	10,433	
Deferred revenue			5,074	5,074	
Customer deposits			17,150	17,150	
Payable from restricted assets					
Accrued interest payable		1,545		1,545	
Bonds payable - Current		30,000		30,000	
		31,545	216,555	258,910	
TOTAL CURRENT LIABILITIES	<u>10,808</u>				
NONCURRENT LIABILITIES:					
Compensated absences	12,941		81,905	94,846	
Bonds payable		235,000		235,000	
TOTAL NONCURRENT LIABILITIES	<u>12,941</u>	<u>235,000</u>	<u>81,905</u>	<u>329,846</u>	
TOTAL LIABILITIES	<u>23,749</u>	<u>266,545</u>	<u>298,460</u>	<u>588,756</u>	
NET ASSETS:					
Invested in capital assets, net of related debt	1,083,344	18,278	4,629,228	5,730,850	92,604
Restricted for:					
Debt service		73,728		73,728	
Capital projects	307,718	168,603	1,000,000	1,476,320	
Unrestricted	859,869	11,862	5,290,435	6,162,165	154,791
TOTAL NET ASSETS	<u>\$ 2,250,931</u>	<u>\$ 272,471</u>	<u>\$ 10,919,663</u>	<u>13,443,063</u>	<u>\$ 247,395</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds				1,298	
Net assets of business-type activities				<u>\$ 13,444,361</u>	

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
YEAR ENDED MARCH 31, 2006**

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS	
OPERATING REVENUE:					
Charges for services	\$ 294,958	\$ 9,434	\$ 3,093,120	\$ 3,397,512	\$ 94,187
Current property taxes			96,374	96,374	
Intergovernmental	5,074		5,074	10,148	
TOTAL OPERATING REVENUE	<u>300,032</u>	<u>9,434</u>	<u>3,194,568</u>	<u>3,504,034</u>	<u>94,187</u>
OPERATING EXPENSES:					
Salaries and wages	100,444			100,444	11,221
Employee benefits	36,463			36,463	6,337
Laboratory tests	4,548			4,548	
Operating supplies					445
Gas and oil					17,220
Audit fees	3,400	250		3,650	775
Legal fees	21,072			21,072	
Printing and publishing	3,159			3,159	
Insurance	3,010			3,010	6,803
Lift station expense	4,148			4,148	
Maintenance and repair	84,987			84,987	8,457
Equipment rental	8,129			8,129	
Miscellaneous	7,118			7,118	
Depreciation	62,816	8,396		71,212	53,336
Internet			48,289	48,289	
Production			1,929,557	1,929,557	
Distribution			357,715	357,715	
General and administrative			830,085	830,085	
TOTAL OPERATING EXPENSES	<u>339,293</u>	<u>8,646</u>	<u>3,165,646</u>	<u>3,513,585</u>	<u>104,594</u>
OPERATING INCOME (LOSS)	<u>(39,261)</u>	<u>788</u>	<u>28,922</u>	<u>(9,551)</u>	<u>(10,407)</u>
NONOPERATING REVENUE (EXPENSES):					
Interest income	36,941	7,334	148,913	193,188	4,031
Miscellaneous	3,224		22,716	25,940	
Bond interest and fees		(20,184)		(20,184)	
Amortization		(1,768)		(1,768)	
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>40,165</u>	<u>(14,618)</u>	<u>171,629</u>	<u>197,176</u>	<u>4,031</u>
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	<u>904</u>	<u>(13,830)</u>	<u>200,551</u>	<u>187,625</u>	<u>(6,376)</u>
OTHER FINANCING SOURCES:					
Operating transfer in		35,915		35,915	
Contributions			9,000	9,000	
CHANGE IN NET ASSETS	<u>904</u>	<u>22,085</u>	<u>209,551</u>	<u>232,540</u>	<u>(6,376)</u>
TOTAL NET ASSETS - BEGINNING	2,250,027	250,386	10,710,112		253,771
TOTAL NET ASSETS - ENDING	<u>\$ 2,250,931</u>	<u>\$ 272,471</u>	<u>\$ 10,919,663</u>		<u>\$ 247,395</u>

Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds

(899)

Change in net assets of business-type activities

\$ 231,641

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED MARCH 31, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SANITARY SEWER</u>	<u>M-25 WATER AND SEWER SYSTEM</u>	<u>LIGHT AND WATER DEPARTMENT</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers	\$ 283,426	\$ 9,104	\$ 3,198,550	\$ 3,491,080
Receipts from other governments	5,075			5,075
Receipts from interfund services	(120,853)	(250)	(2,089,448)	(2,210,551)
Payments to suppliers of goods and services	(8,129)			(8,129)
Payments for interfund services	(86,927)		(510,725)	(597,652)
Payments to employees	(38,301)		(244,611)	(282,912)
Payments for fringe benefits				
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>34,291</u>	<u>8,854</u>	<u>353,766</u>	<u>396,911</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Operating transfers in		35,915		35,915
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES		<u>35,915</u>		<u>35,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Principal paid on revenue bonds		(25,000)		(25,000)
Interest and fees paid on bonds		(20,329)		(20,329)
Acquisition of capital assets	(126,942)		(444,028)	(570,970)
Contributed capital received			9,000	9,000
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(126,942)</u>	<u>(45,329)</u>	<u>(435,028)</u>	<u>(7,963)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED MARCH 31, 2006**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			<u>TOTALS</u>	<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SANITARY SEWER</u>	<u>M-25 WATER AND SEWER SYSTEM</u>	<u>LIGHT AND WATER DEPARTMENT</u>		
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	35,640	7,334	156,832	199,805	4,031
(Increase) decrease in short-term investments	(7,070)	162,925		155,856	(290)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>28,569</u>	<u>170,259</u>	<u>156,832</u>	<u>355,661</u>	<u>3,741</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>(64,082)</u>	<u>169,700</u>	<u>75,570</u>	<u>181,188</u>	<u>37,837</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	957,103	63,278	4,095,280	5,115,661	99,715
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 893,021</u>	<u>\$232,978</u>	<u>\$ 4,170,850</u>	<u>\$ 5,296,849</u>	<u>\$ 137,552</u>
Cash Reconciliation:					
Cash	\$ 675,823		\$ 3,170,850	\$ 3,846,673	\$ 137,552
Restricted cash	217,198	\$232,978	1,000,000	1,450,176	
Total	<u>\$ 893,021</u>	<u>\$232,978</u>	<u>\$ 4,170,850</u>	<u>\$ 5,296,849</u>	<u>\$ 137,552</u>

VILLAGE OF SEBEWAING, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS YEAR ENDED MARCH 31, 2006

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ (39,261)	\$ 788	\$ 28,922	\$ (9,551)	\$ (10,407)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	62,816	8,396	301,164	372,376	53,336
Miscellaneous	3,224		23,676	26,900	
(Increase) decrease in current assets:					
Accounts receivable - Trade	(11,532)	(330)	105,430	93,568	
Prepaid insurance	(1,839)		(61,204)	(63,043)	(665)
Inventories			(20,296)	(20,296)	
Increase (decrease) in current liabilities:					
Accounts payable	7,366		(32,621)	(25,255)	(205)
Due to other government			(1,077)	(1,077)	
Accrued salaries and wages	576		1,711	2,287	
Compensated absences	12,941		6,251	19,192	
Accrued payroll taxes			260	260	
Customer deposits			1,550	1,550	
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 34,291</u>	<u>\$ 8,854</u>	<u>\$ 353,766</u>	<u>\$ 396,911</u>	<u>\$ 42,059</u>

The accompanying notes are an integral
part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Village of Sebewaing operates a Council-Mayor form of government under provisions of a revised charter dated May 18, 1965, and provides the following services as authorized by its charter: public safety, (police and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Village are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The Village of Sebewaing implemented this Statement for the year ended March 31, 2005.

Reporting Entity:

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Village's reporting entity.

Included in the reporting entity:

Sebewaing Light and Water Department. The Light and Water Department is an entity legally separate from the Village and is governed by a four-member board of commissioners made up of members of the Village Council. For financial reporting purposes, the Light and Water Department is included in the reporting entity of the Village as a blended component unit because its purpose is to provide electric and water utility service to the residents of the Village.

VILLAGE OF SEBEWAING, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity: (Continued)

Excluded from the reporting entity:

Unionville Sebewaing Area Schools. This potential component unit has a separate elected board and provides educational services to residents of the Village as well as other surrounding areas. This unit is excluded from the reporting entity because the Village does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

Sebewaing Harbor Commission. The Village of Sebewaing along with Sebewaing Township created this separate legal entity for the purpose of planning, acquiring, constructing and operating a community harbor to provide recreational services to the residents of the Village and Township along with the general public. Each governing body appointed three members to create a six member Board of Commissioners. Based on the criteria for determining which component units to include in the reporting entity, the Village's management has excluded the Harbor Commission from the reporting entity of the Village. However, because of the financial interest and responsibility the Village and Township equally share for the Harbor Commission, the Harbor Commission is being treated as a joint venture between the Village of Sebewaing and the Sebewaing Township. The investment in the joint venture has been included in the government-wide statement of net assets and further disclosures related to the investment in the joint venture are included in Note 5.

Government Wide and Fund Financial Statements:

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Village's public safety and general administrative services are classified as governmental activities. The Village's water and sewer services are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those which are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **Government Wide and Fund Financial Statements: (Continued)**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the Village are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Michigan intergovernmental revenue and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the Village.

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation: (Continued)

The Village reports the following major governmental funds:

General Fund-The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Fund-The Capital Project Fund accounts for activities related to a grant received for the purpose of making infrastructure improvements around a local factory.

The Village reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the Village's wastewater treatment operations.

The **Light & Water Fund** accounts for the activities of the Village's electric and water distribution systems.

The **M-25 Fund** accounts for the retirement of bonds used to finance the expansion of the Village's water and sewer system to the M-25 District.

Additionally, the Village reports the following nonmajor fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The Major Street Fund and the Local Street Fund are special revenue funds used to account for revenue from State Revenue Sharing. The Street Tax Fund is a special revenue fund used to account for revenue from a special tax assessed for street and sidewalk maintenance.

Internal Service Funds (Equipment Rental Fund) - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on a cost-reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the utility enterprise fund and the Village's internal service fund are charges to customers for use of the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF SEBEWAING, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budgets and Budgetary Accounting:

The Village Council practices the following procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Village charter, prior to March 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Village charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. The Village Clerk is required by the Village charter to present a monthly report to the Village Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse at the end of each fiscal year.
8. The Village Council may authorize supplemental appropriations during the year.

Cash and Cash Equivalents:

Cash and cash equivalents of the Village include cash on hand and all deposits with financial institutions, including all certificates of deposit. Investments in U.S. Treasury Securities and approved municipal investment pools are excluded from cash and cash equivalents.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Other receivables at March 31, 2006 consist of state road taxes, and billings for user charged services, including trash collections and utility services. Trash and utility charges are deemed collectible in full.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Village property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition - Property Taxes).

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Village has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Village will not retroactively capitalize the major infrastructure assets acquired on or before March 31, 2004 as permitted by GASB 34.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

VILLAGE OF SEBEWAING, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental Statement of Net Assets. Depreciation expense for the year ended March 31, 2006, was \$66,227. Capital asset acquisitions in the governmental funds totaled \$2,053,019 and asset disposals totaled \$20,512 for the year ended March 31, 2006. A summary of Governmental Fund capital assets at March 31, 2006, follows:

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 164,223	\$ 113,360
Land improvements	222,546	222,546
Buildings	477,847	477,847
Equipment	301,106	310,781
Streets	1,991,319	
Internal Service Fund assets	458,272	450,310
Other infrastructure	10,575	10,575
Construction in progress	<u>68,635</u>	<u>68,635</u>
Total capital assets	3,694,523	1,654,054
Less accumulated depreciation	<u>887,967</u>	<u>788,517</u>
Net governmental fund capital assets	<u>\$ 2,806,556</u>	<u>\$ 865,537</u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended March 31, 2006 was \$372,376. Capital asset acquisitions in the business-type funds totaled \$570,973 and asset disposals totaled \$114,593 for the year ended March 31, 2006. A summary of Business-Type Fund capital assets at March 31, 2006, follows:

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 285,104	\$ 255,277
Land improvements	74,950	74,950
Buildings	1,296,463	1,294,627
Equipment	284,223	256,598
Electric system	5,557,815	5,379,310
Water system	2,521,137	2,488,937
Sewer collection system	2,365,520	2,244,585
Roads and fencing	75,040	75,040
Construction in progress	<u>131,446</u>	<u>131,446</u>
Total capital assets	12,591,697	12,135,317
Less accumulated depreciation	<u>6,595,847</u>	<u>6,337,104</u>
Net business-type fund capital assets	<u>\$ 5,995,850</u>	<u>\$ 5,798,213</u>

VILLAGE OF SEBEWAING, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Assets: (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Public safety	\$12,627
Highways and public improvements	20,484
Parks and recreation	24,187
Unallocated	<u>8,929</u>
Total depreciation expense – governmental activities	<u>\$66,227</u>

Business-type activities:

Sewer	\$ 62,816
Light and water	301,164
Water and sewer projects	<u>8,396</u>
Total depreciation expense – business-type activities	<u>\$372,376</u>

Compensated Absences:

Village and Light and Water Department employees are allowed to accumulate a maximum of one hundred twenty days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of one hundred twenty days is paid annually at one-half of regular pay rate. There is no accumulation of unused vacation days allowed. The Village accrues a liability for compensated absences based on the estimate of accumulated sick leave that will be paid to its employees upon termination of employment in accordance with the requirements of GASB Statement 16. For governmental funds, the liability for compensated absences is recorded in the government-wide statement of net assets since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with GASB Statement 16.

Long-Term Obligations:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - BUDGET COMPLIANCE:

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's expenditures and budgeted expenditures for the budgetary funds have been shown on a line item basis. The approved budgets of the Village for these budgetary funds were adopted at the department head/function level.

During the year ended March 31, 2006, the following expenditures were in excess of the amounts appropriated for the year:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Legislative	\$ 20,155	\$ 20,306	\$ 151
Buildings and grounds	13,330	18,118	4,788
Public safety	343,095	343,302	207
Special Revenue Funds:			
Major Street:			
Administration	32,550	33,715	1,165

NOTE 3 - CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS:

The carrying amount of cash and deposits with financial institutions of the Village of Sebewaing amounted to \$5,833,842 at March 31, 2006. The total bank balance as of the same date was \$5,841,864. Deposits with financial institutions are categorized as follows:

	<u>March 31, 2006</u>
Amount insured by the FDIC	\$2,494,058
Uncollateralized	3,179,208
Deposits held by Huron County	168,598
Total deposits with financial institutions	<u>\$5,841,864</u>

The portion of the total deposits categorized as uncollateralized which is the property of the Village of Sebewaing is \$601,165, and \$2,578,043 is the property of the Sebewaing Light and Water Department, an Enterprise Fund.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 3 - CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS: (CONTINUED)

The carrying amount of cash and deposits, which were restricted or designated for specific purposes as of March 31, 2006, amounted to \$1,468,102. Cash and deposits were restricted or designated for the following purposes:

	March 31, 2006
Village beautification	\$ 6,785
Police vehicle replacement	4,176
Parks equipment	4,264
Scheiwe bell tower	582
Playscape	2,119
Retirement of general obligation sanitary sewer bonds and to extend, enlarge and improve the sewer system	450,176
Building and equipment replacement for the Light and Water Department	<u>1,000,000</u>
Total restrictions on deposits	<u>\$1,468,102</u>

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village's deposits are in accordance with statutory authority. The Village has authorized management to deposit and invest in the accounts of federally insured banks and savings and loan associations within the State of Michigan and bonds, securities and other obligations of the United States, or any agency of the United States in which the principal and interest is fully guaranteed by the United States. The Village's deposits and investments are within the authorization as set forth by the Village of Sebewaing. The Village's investment policy does not address the risk categories required by GASB Statement No. 40.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 3 - CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS: (CONTINUED)

Investments:

At March 31, 2006, the Sebewaing Light and Water Department held investments of \$1,900,000 in U.S. Treasury Securities with a carrying amount of \$1,878,699, which approximates the market value. The Light and Water Department owns the U.S. Treasury Securities directly and has purchased the securities through a "Treasury Direct" account with the Federal Reserve Bank of Chicago. Therefore, the investment would be classified as a Category 1 investment (Insured or registered, with securities held by the Department or its agent in the Department's name).

The Village also invested its own funds in a municipal investment pool separate from Light and Water Department during the year ended March 31, 2006. The balance in the Village's municipal investment pool at March 31, 2006, was \$527,826. Of these investments, \$142,822 has been restricted for the following purposes:

New office building	\$ 42,950
Sewer system replacement	90,520
Redemption of M-25 Sewer and Water	
Construction Bonds	<u>9,352</u>
Total restrictions on investments	<u>\$142,822</u>

At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Average Maturity</u>
Governmental Activities:		
Cash management account	\$ 280,836	1 day
Business-Type Activities:		
Cash management account	246,990	1 day
U.S. Treasury Securities	<u>1,878,699</u>	53.9 days
	<u>\$ 2,406,525</u>	

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 4 - INVENTORIES:

Inventories are stated at cost determined on the first-in, first-out method. Inventories consisted of the following:

	March 31, 2006
Light Department:	
Poles, towers, fixtures	\$ 24,249
Line material	105,262
Line transformers	155,270
Meters	7,293
Street lighting	15,846
Customer service – Lamps	5,165
Office supplies	600
Lamps – Resale	9,968
Fuel oil, lubricants	17,212
Internet	3,908
Customer service – Material	1,500
Total Light Department	<u>346,273</u>
Water Department:	
Distribution mains, services	11,882
Fire hydrants	6,907
Meters	6,157
Maintenance supplies	22,795
Office supplies	350
Total Water Department	<u>48,092</u>
Sanitary Sewer Fund:	
Pipes, manhole covers, etc.	3,278
Total Inventory	<u>\$397,643</u>

NOTE 5 - INVESTMENT IN JOINT VENTURE:

As described in Note 1, included in the Statement of Net Assets is the amount of \$69,710, which represents the Village's investment in the Sebewaing Harbor Commission. The Sebewaing Harbor Commission is being treated as a joint venture because the Village shares equal financial and oversight responsibility with Sebewaing Township. The investment in the Sebewaing Harbor Commission is being accounted for using the equity method of accounting. The following is a condensed balance sheet of the Sebewaing Harbor Commission as of March 31, 2006:

VILLAGE OF SEBEWAING, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006

NOTE 5 - INVESTMENT IN JOINT VENTURE: (CONTINUED)

Assets:	
Cash	\$ 270
Due from Sebewaing Township	975
Capital assets	103,340
Marina lease - net	<u>66,266</u>
Total Assets	<u>\$170,851</u>
Liabilities:	
Due to Village of Sebewaing	\$31,210
Deferred revenue	<u>221</u>
Total Liabilities	31,431
Net Assets:	
Investment in capital assets	103,340
Unrestricted	<u>36,080</u>
Total Liabilities and Net Assets	<u>\$170,851</u>

The Village of Sebewaing and Sebewaing Township, on an equal basis, formed the Sebewaing Harbor Commission to construct a marina. The Sebewaing Harbor Commission owned the land and received annual lease payments from the operator of the marina facility. The construction of the marina was financed by grants from the State of Michigan.

The Village advanced funds to the Harbor Commission which were used for the purchase of land at the proposed site of the marina. As of March 31, 2006, the amount due to the Village of Sebewaing from the Sebewaing Harbor Commission amounted to \$31,210. Also, an amount due to the Sebewaing Harbor Commission from Sebewaing Township amounted to \$975.

During the year ended March 31, 2004, the Sebewaing Harbor Commission purchased the marina operating lease from the private operator of the marina. For the years ended March 31, 2005 and 2006, the marina was run by the Sebewaing Harbor Commission.

NOTE 6 - LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Village for the year ended March 31, 2006:

	COMPENSATED ABSENCES	M-25 SEWER AND WATER CONSTRUCTION BONDS
Balance, March 31, 2005	\$127,242	\$290,000
Bonds retired		(25,000)
Net change in compensated absences	<u>26,705</u>	
Total	153,947	265,000
Less: Current portion		<u>(30,000)</u>
Balance, March 31, 2006	<u>\$153,947</u>	<u>\$235,000</u>

VILLAGE OF SEBEWAING, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2006**

NOTE 6 - LONG-TERM DEBT: (CONTINUED)

Details of the Village of Sebewaing's long-term debt as of March 31, 2006, are as follows:

On June 1, 1989, Huron County issued bonds totaling \$525,000 for the Village of Sebewaing for the purpose of defraying the cost of acquiring and constructing sanitary sewer and water lines along M-25 from Sebewaing Road south approximately 2,800 feet. The bonds shall be known as "Sebewaing M-25 Water and Sanitary Sewer System Bonds" and shall mature on September 1, 1990 and each September 1 thereafter until fully paid. The bonds shall bear interest payable September 1, 1989 and each March 1 and September 1 thereafter until maturity. The bonds final maturity date is September 1, 2012. The interest rates on the bonds range from 6.65% to 9.5% per annum, depending on maturity dates of the individual bonds. Bonds maturing on or after September 1, 2002 shall be subject to redemption in whole or in part on any interest payment date on or after September 1, 2001 in any order, at the option of the County, at par, plus accrued interest, plus a premium, if any, stated as a percentage of the face amount, as follows:

If redeemed on or after September 1, 2001, but before September 1, 2006: 2%

If redeemed on or after September 1, 2006, but before September 1, 2011: 1%

Bonds maturing on or after September 1, 2011 shall be subject to redemption without a premium. \$265,000

Total Bonded Debt Outstanding	<u>265,000</u>
Less: Current Portion of Bonds	<u>(30,000)</u>
Total Long-Term Portion of Bonded Debt	<u>\$235,000</u>

Long-term Debt Service requirements excluding compensated absences at March 31, 2006 are as follows:

	<u>TOTAL</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
Year Ending 3/31/07	\$ 47,745	\$ 30,000	\$ 17,745
3/31/08	50,454	35,000	15,454
3/31/09	52,810	40,000	12,810
3/31/10	49,980	40,000	9,980
3/31/11	47,140	40,000	7,140
3/31/12 to 3/31/13	85,720	80,000	5,720
Totals	<u>\$333,849</u>	<u>\$265,000</u>	<u>\$ 68,849</u>

Total interest incurred amounted to \$19,534 for the year ended March 31, 2006, all of which was charged to expense.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 7 - RETIREMENT SYSTEM - MERS OPERATED:

Pension Plan:

Plan Description: The Village of Sebewaing participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

Annual Pension Cost: For the year ended March 31, 2006, the Village's annual pension cost of \$109,586 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 47,727	\$ 75,967	\$ 103,944
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	3,957,174	4,065,945	4,147,907
Actuarial Accrued Liability (entry age)	4,914,142	5,323,901	5,507,223
Unfunded AAL	956,968	1,257,956	1,359,316
Funded ratio	81%	76%	75%
Covered payroll	824,473	828,818	930,050
UAAL as a percentage of covered payroll	116%	152%	146%

NOTE 8 - DEFERRED COMPENSATION:

Employees of the Village of Sebewaing may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Village. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2006

NOTE 9 – CONTINGENT LIABILITIES:

The Village is a reimbursing employer for purposes of unemployment insurance claims against the Village. The Village reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

The Village has been notified that certain residents in the Hickory Court subdivision have made a claim that there has been a breach of the agreement regarding the provision of sanitary sewer service to the subdivision. The Village intends to defend the claim, but an estimate of the potential liability to the Village can not be made at this time. The Village has been advised that it is probable that there will be insurance coverage related to this claim.

NOTE 10 - RELATED PARTY TRANSACTIONS:

As a matter of convenience, the Sebewaing Light and Water Department collects sewer, trash and fines billed by the Village of Sebewaing along with its own electric and water utility billings from customers. The collections for sewer, trash and fine charges are then periodically transferred to the Village's accounts. During the year ended March 31, 2006, the Village's General and Sanitary Sewer Funds paid \$39,428 to the Light and Water Department for electric service for street lighting and lift station operation.

NOTE 11 - RISK MANAGEMENT:

General Liability:

Village of Sebewaing participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$8.6 million for real and personal property losses and \$5 million for liability losses. Village of Sebewaing is required to pay annual premiums to the Michigan Municipal Liability and Property Pool for the liability coverage. No supplemental premium assessment is required by the Michigan Municipal Liability and Property Pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Workers' Compensation:

Village of Sebewaing purchased commercial insurance coverage for losses related to workers' compensation claims.

Employee Health Care:

Village of Sebewaing purchased commercial insurance coverage for its employees and their dependents.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF SEBEWAING, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes	\$ 360,865	\$ 360,865	\$ 355,690	\$ (5,175)
Licenses and permits	600	600	880	280
Intergovernmental	282,337	282,337	263,584	(18,753)
Fines	2,000	2,000	7,469	5,469
Charges for services	74,300	74,300	72,548	(1,752)
Miscellaneous	<u>32,238</u>	<u>32,238</u>	<u>48,068</u>	<u>15,830</u>
TOTAL REVENUE	<u>752,340</u>	<u>752,340</u>	<u>748,239</u>	<u>(4,101)</u>
EXPENDITURES:				
General government:				
Legislative:				
Salaries	18,720	18,720	19,069	(349)
Fringe benefits	<u>1,435</u>	<u>1,435</u>	<u>1,237</u>	<u>198</u>
Total legislative	<u>20,155</u>	<u>20,155</u>	<u>20,306</u>	<u>(151)</u>
Financial and administration:				
Salaries	61,300	61,300	59,763	1,537
Fringe benefits	29,550	29,550	32,477	(2,927)
Supplies	2,500	2,500	3,574	(1,074)
Postage	2,500	2,500	1,053	1,447
Professional services	16,200	16,200	14,859	1,341
Telephone and internet services	2,500	2,500	2,405	95
Transportation	1,000	1,000	1,802	(802)
Promotions	3,000	3,000	1,318	1,682
Printing and publishing	8,500	8,500	7,809	691
Insurance	1,600	1,600	1,132	468
Repairs and maintenance	4,000	4,000	3,500	500
Contributed to other government	500	500	-	500
Dues and subscriptions	2,100	2,100	1,707	393
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>1,326</u>	<u>674</u>
Total financial and amination	<u>137,250</u>	<u>137,250</u>	<u>132,725</u>	<u>4,525</u>
Buildings and grounds:				
Salaries	3,000	3,000	2,849	151
Fringe benefits	230	230	221	9
Insurance	600	600	244	356
Utilities	6,500	6,500	6,642	(142)
Repairs and maintenance	<u>3,000</u>	<u>3,000</u>	<u>8,162</u>	<u>(5,162)</u>
Total buildings and grounds	<u>13,330</u>	<u>13,330</u>	<u>18,118</u>	<u>(4,788)</u>
Total general government	<u>170,735</u>	<u>170,735</u>	<u>171,149</u>	<u>(414)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Public safety:				
Salaries	193,000	193,000	196,585	(3,585)
Fringe benefits	93,845	93,845	90,494	3,351
Supplies	2,300	2,300	1,202	1,098
Gasoline	7,500	7,500	8,737	(1,237)
Uniforms and laundry	1,200	1,200	1,308	(108)
Professional services	7,000	7,000	10,155	(3,155)
Contracted services	1,500	1,500	1,373	127
Telephone and internet services	2,850	2,850	2,990	(140)
Insurance	25,000	25,000	20,596	4,404
Repairs and maintenance	5,200	5,200	7,265	(2,065)
Dues and subscriptions	250	250	250	-
Education and training	1,450	1,450	2,078	(628)
Miscellaneous	2,000	2,000	269	1,731
Total public safety	<u>343,095</u>	<u>343,095</u>	<u>343,302</u>	<u>(207)</u>
Public services:				
Public lighting	33,000	33,000	29,756	3,244
Sanitation	70,000	70,000	71,590	(1,590)
Salaries	11,000	11,000	9,909	1,091
Fringe benefits	6,925	6,925	6,594	331
Licensing	500	500	741	(241)
Supplies	2,200	2,200	1,277	923
Materials	4,600	4,600	3,558	1,042
Uniforms and gloves	1,400	1,400	1,127	273
Professional services	3,000	3,000	1,995	1,005
Contracted services	3,000	3,000	2,101	899
Telephone and internet services	2,550	2,550	2,346	204
Transportation	100	100	-	100
Insurance	2,477	2,477	1,301	1,176
Utilities	2,200	2,200	2,672	(472)
Equipment rental	3,000	3,000	3,063	(63)
Miscellaneous	3,750	3,750	587	3,163
Total public services	<u>149,702</u>	<u>149,702</u>	<u>138,617</u>	<u>11,085</u>
Parks and recreation:				
Salaries	35,800	35,800	22,187	13,613
Fringe benefits	15,340	15,340	11,520	3,820
Safety equipment	300	300	57	243
Gasoline	600	600	568	32
Supplies	2,000	2,000	2,404	(404)
Uniforms and gloves	-	-	43	(43)
Contracted services	1,750	1,750	2,000	(250)
Recreation	700	700	459	241
Insurance	3,500	3,500	4,334	(834)
Utilities	2,350	2,350	2,902	(552)

VILLAGE OF SEBEWAING, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Parks and recreation (continued):				
Repairs and maintenance	6,600	6,600	4,806	1,794
Miscellaneous	<u>300</u>	<u>300</u>	<u>35</u>	<u>265</u>
Total parks and recreation	69,240	69,240	51,315	17,925
 Capital outlay	 76,600	 76,600	 73,017	 3,583
 TOTAL EXPENDITURES	 809,372	 809,372	 777,400	 31,972
 EXCESS OF REVENUE (UNDER) EXPENDITURES	 <u>(57,032)</u>	 <u>(57,032)</u>	 <u>(29,161)</u>	 <u>27,871</u>
 OTHER FINANCING SOURCES (USES):				
Operating transfers in	11,600	11,600	11,600	
Operating transfers out	<u>(52,210)</u>	<u>(52,210)</u>	<u>(35,915)</u>	<u>16,295</u>
TOTAL OTHER FINANCING (USES)	(40,610)	(40,610)	(24,315)	16,295
 EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER (USES)	 <u>(97,642)</u>	 <u>(97,642)</u>	 <u>(53,476)</u>	 <u>44,166</u>
 FUND BALANCE - BEGINNING	 576,470	 576,470	 576,470	 -
 FUND BALANCE - ENDING	 <u>\$ 478,828</u>	 <u>\$ 478,828</u>	 <u>\$ 522,994</u>	 <u>\$ 44,166</u>

SUPPLEMENTAL INFORMATION

VILLAGE OF SEBEWAING, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
MARCH 31, 2006**

	<u>MAJOR</u> <u>STREET</u>	<u>LOCAL</u> <u>STREET</u>	<u>STREET</u>	<u>TOTALS</u> <u>MARCH 31,</u>	
				<u>2006</u>	<u>2005</u>
<u>ASSETS</u>					
Cash and deposits	\$ 52,193	\$ 153	\$ 77,776	\$ 130,122	\$ 163,978
Investments	5,031	3,964	74,030	83,025	80,939
Accounts receivable	18,872	7,938		26,810	27,061
Accrued interest receivable	62		203	265	226
Prepaid insurance	4,536	3,389		7,925	12,107
Due from other funds		222		222	222
TOTAL ASSETS	<u>\$ 80,694</u>	<u>\$ 15,666</u>	<u>\$ 152,009</u>	<u>\$ 248,369</u>	<u>\$ 284,533</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>CURRENT LIABILITIES:</u>					
Accounts payable					\$ 21,440
Due to other funds	\$ 222			\$ 222	222
TOTAL LIABILITIES	222			222	21,662
<u>FUND BALANCE:</u>					
Undesignated	80,472	\$ 15,666	\$ 152,009	248,147	262,871
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 80,694</u>	<u>\$ 15,666</u>	<u>\$ 152,009</u>	<u>\$ 248,369</u>	<u>\$ 284,533</u>

VILLAGE OF SEBEWAING, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2006**

	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>STREET</u>	<u>TOTALS MARCH 31,</u>	
				<u>2006</u>	<u>2005</u>
REVENUE:					
Taxes			\$ 126,326	\$ 126,326	\$ 124,213
Intergovernmental	\$ 119,756	\$ 43,299	37,525	200,580	201,960
Miscellaneous	4,506	673	5,253	10,432	9,335
TOTAL REVENUE	<u>124,262</u>	<u>43,972</u>	<u>169,104</u>	<u>337,338</u>	<u>335,508</u>
EXPENDITURES:					
Streets	138,772	119,587		258,359	338,653
Miscellaneous			650	650	650
TOTAL EXPENDITURES	<u>138,772</u>	<u>119,587</u>	<u>650</u>	<u>259,009</u>	<u>339,303</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(14,510)</u>	<u>(75,615)</u>	<u>168,454</u>	<u>78,329</u>	<u>(3,795)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	130,000	100,000		230,000	141,000
Operating transfers out	(54,727)	(26,726)	(241,600)	(323,053)	(152,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>75,273</u>	<u>73,274</u>	<u>(241,600)</u>	<u>(93,053)</u>	<u>(11,000)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER SOURCES (USES)	<u>60,763</u>	<u>(2,341)</u>	<u>(73,146)</u>	<u>(14,724)</u>	<u>(14,795)</u>
FUND BALANCE - BEGINNING OF YEAR	19,709	18,007	225,155	262,871	277,666
FUND BALANCE - END OF YEAR	<u>\$ 80,472</u>	<u>\$ 15,666</u>	<u>\$ 152,009</u>	<u>\$ 248,147</u>	<u>\$ 262,871</u>

VILLAGE OF SEBEWAING, MICHIGAN

MAJOR STREET FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL YEAR ENDED MARCH 31, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 104,750	\$ 104,750	\$ 99,537	\$ (5,213)
Metro Act Annual Fee			7,236	7,236
Build Michigan road program			3,409	3,409
Major snow program			1,751	1,751
Sweeping	<u>3,000</u>	<u>3,000</u>	<u>7,823</u>	<u>4,823</u>
Total intergovernmental	107,750	107,750	119,756	12,006
Miscellaneous:				
Special assessment			2,482	2,482
Interest income	<u>700</u>	<u>700</u>	<u>2,024</u>	<u>1,324</u>
TOTAL REVENUE	<u>108,450</u>	<u>108,450</u>	<u>124,262</u>	<u>15,812</u>
EXPENDITURES:				
Routine maintenance:				
Labor	30,000	30,000	29,889	111
Materials	5,000	5,000	3,021	1,979
Contracted services	19,000	19,000	14,145	4,855
Equipment rental	<u>35,000</u>	<u>35,000</u>	<u>34,555</u>	<u>445</u>
Total routine maintenance	<u>89,000</u>	<u>89,000</u>	<u>81,610</u>	<u>7,390</u>
Preservation of bridge:				
Labor	1,500	1,500	748	752
Materials	500	500	222	278
Engineering fees	1,000	1,000	1,077	(77)
Equipment rental	<u>500</u>	<u>500</u>	<u>111</u>	<u>389</u>
Total preservation of bridge	<u>3,500</u>	<u>3,500</u>	<u>2,158</u>	<u>1,342</u>
Trees:				
Labor	1,000	1,000	838	162
Materials	150	150	-	150
Contracted services	1,000	1,000	348	652
Equipment rental	<u>500</u>	<u>500</u>	<u>309</u>	<u>191</u>
Total trees	<u>2,650</u>	<u>2,650</u>	<u>1,495</u>	<u>1,155</u>
Traffic services:				
Labor	1,000	1,000	670	330
Materials	1,000	1,000	523	477
Equipment rental	<u>750</u>	<u>750</u>	<u>166</u>	<u>584</u>
Total traffic services	<u>2,750</u>	<u>2,750</u>	<u>1,359</u>	<u>1,391</u>

VILLAGE OF SEBEWAING, MICHIGAN

**MAJOR STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Winter maintenance:				
Labor	8,000	8,000	6,968	1,032
Materials	2,500	2,500	349	2,151
Equipment rental	<u>11,500</u>	<u>11,500</u>	<u>11,118</u>	<u>382</u>
Total winter maintenance	<u>22,000</u>	<u>22,000</u>	<u>18,435</u>	<u>3,565</u>
Administration:				
Labor	4,000	4,000	3,919	81
Fringe benefits	23,600	23,600	20,586	3,014
Professional services	750	750	750	-
Insurance	<u>4,200</u>	<u>4,200</u>	<u>8,460</u>	<u>(4,260)</u>
Total administration	<u>32,550</u>	<u>32,550</u>	<u>33,715</u>	<u>(1,165)</u>
TOTAL EXPENDITURES	<u>152,450</u>	<u>152,450</u>	<u>138,772</u>	<u>13,678</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(44,000)</u>	<u>(44,000)</u>	<u>(14,510)</u>	<u>29,490</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	130,000	130,000	130,000	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>(54,727)</u>	<u>(54,727)</u>
TOTAL OTHER FINANCING SOURCES	<u>130,000</u>	<u>130,000</u>	<u>75,273</u>	<u>(54,727)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>86,000</u>	<u>86,000</u>	<u>60,763</u>	<u>(25,237)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>19,709</u>	<u>19,709</u>	<u>19,709</u>	
FUND BALANCE - END OF YEAR	<u>\$ 105,709</u>	<u>\$ 105,709</u>	<u>\$ 80,472</u>	<u>\$ (25,237)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 40,100	\$ 40,100	\$ 41,865	\$ 1,765
Build Michigan road program			1,434	1,434
Miscellaneous:				
Interest income	<u>500</u>	<u>500</u>	<u>673</u>	<u>173</u>
TOTAL REVENUE	<u>40,600</u>	<u>40,600</u>	<u>43,972</u>	<u>3,372</u>
EXPENDITURES:				
Routine maintenance:				
Labor	30,000	30,000	30,246	(246)
Materials	5,000	5,000	4,185	815
Contracted services	15,000	15,000	14,167	833
Equipment rental	<u>30,000</u>	<u>30,000</u>	<u>27,398</u>	<u>2,602</u>
Total routine maintenance	<u>80,000</u>	<u>80,000</u>	<u>75,996</u>	<u>4,004</u>
Trees:				
Labor	1,000	1,000	734	266
Materials	200	200	35	165
Contracted services	1,000	1,000	358	642
Equipment rental	<u>800</u>	<u>800</u>	<u>581</u>	<u>219</u>
Total trees	<u>3,000</u>	<u>3,000</u>	<u>1,708</u>	<u>1,292</u>
Traffic services:				
Labor	1,000	1,000	646	354
Materials	1,000	1,000	317	683
Equipment rental	<u>700</u>	<u>700</u>	<u>69</u>	<u>631</u>
Total traffic services	<u>2,700</u>	<u>2,700</u>	<u>1,032</u>	<u>1,668</u>
Winter maintenance:				
Labor	5,000	5,000	5,304	(304)
Materials	500	500	-	500
Equipment rental	<u>7,500</u>	<u>7,500</u>	<u>7,374</u>	<u>126</u>
Total winter maintenance	<u>13,000</u>	<u>13,000</u>	<u>12,678</u>	<u>322</u>

VILLAGE OF SEBEWAING, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Administration:				
Labor	4,000	4,000	3,767	233
Fringe benefits	20,490	20,490	20,009	481
Professional services	750	750	750	-
Insurance	<u>3,050</u>	<u>3,050</u>	<u>3,647</u>	<u>(597)</u>
Total administration	<u>28,290</u>	<u>28,290</u>	<u>28,173</u>	<u>117</u>
TOTAL EXPENDITURES	<u>126,990</u>	<u>126,990</u>	<u>119,587</u>	<u>7,403</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(86,390)</u>	<u>(86,390)</u>	<u>(75,615)</u>	<u>10,776</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	115,000	115,000	100,000	(15,000)
Operating transfers out	<u>-</u>	<u>-</u>	<u>(26,726)</u>	<u>(26,726)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>115,000</u>	<u>115,000</u>	<u>73,274</u>	<u>(41,726)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>28,610</u>	<u>28,610</u>	<u>(2,341)</u>	<u>(30,951)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>18,007</u>	<u>18,007</u>	<u>18,007</u>	
FUND BALANCE - END OF YEAR	<u>\$ 46,617</u>	<u>\$ 46,617</u>	<u>\$ 15,666</u>	<u>\$ (30,951)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STREET FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 129,000	\$ 129,000	\$ 126,326	\$ (2,674)
Intergovernmental:				
County road tax	32,400	32,400	32,451	51
State shared revenue	5,070	5,070	5,074	4
Miscellaneous:				
Interest on investments	<u>4,000</u>	<u>4,000</u>	<u>5,253</u>	<u>1,253</u>
TOTAL REVENUE	<u>170,470</u>	<u>170,470</u>	<u>169,104</u>	<u>(1,366)</u>
EXPENDITURES:				
Audit	650	650	650	
EXCESS OF REVENUE OVER EXPENDITURES	<u>169,820</u>	<u>169,820</u>	<u>168,454</u>	<u>(1,366)</u>
OTHER FINANCING (USES):				
Operating transfers out	(256,600)	(256,600)	(241,600)	15,000
EXCESS OF REVENUE (UNDER) EXPENDITURES AND OTHER (USES)	<u>(86,780)</u>	<u>(86,780)</u>	<u>(73,146)</u>	<u>13,634</u>
FUND BALANCE - BEGINNING OF YEAR	225,155	225,155	225,155	
FUND BALANCE - END OF YEAR	<u>\$ 138,375</u>	<u>\$ 138,375</u>	<u>\$ 152,009</u>	<u>\$ 13,634</u>

VILLAGE OF SEBEWAING, MICHIGAN

**CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Federal grant	\$ 1,250,000	\$ 1,250,000	\$ 900,819	\$ (349,181)
MDOT grant	941,030	941,030	941,030	
Local match	280,000	280,000	117,356	(162,644)
TOTAL REVENUE	<u>2,471,030</u>	<u>2,471,030</u>	<u>1,959,205</u>	<u>(511,825)</u>
EXPENDITURES:				
Major and local street improvements	1,577,030	1,577,030	1,535,219	41,811
Street engineering	280,000	280,000	187,535	92,465
Water improvements	264,000	264,000	244,654	19,346
Electric improvements	250,000	250,000	23,912	226,088
Job training	75,000	75,000	29,642	45,358
Administrative	25,000	25,000	18,250	6,750
TOTAL EXPENDITURES	<u>2,471,030</u>	<u>2,471,030</u>	<u>2,039,212</u>	<u>431,818</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>(80,007)</u>	<u>(80,007)</u>
OTHER FINANCING SOURCES:				
Operating transfers in			81,452	81,452
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>-</u>	<u>1,445</u>	<u>1,445</u>
FUND BALANCE - BEGINNING OF YEAR				
FUND BALANCE - END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,445</u>	<u>\$ 1,445</u>

VILLAGE OF SEBEWAING, MICHIGAN

**SANITARY SEWER FUND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Charges for services	\$ 364,299	\$ 294,958	\$ (69,341)
Intergovernmental	<u>5,070</u>	<u>5,074</u>	<u>4</u>
TOTAL OPERATING REVENUE	<u>369,369</u>	<u>300,032</u>	<u>(69,337)</u>
OPERATING EXPENSES:			
Salaries and wages	71,200	100,444	(29,244)
Employee benefits	35,700	36,463	(763)
Laboratory tests	4,000	4,548	(548)
Audit fees	3,400	3,400	
Legal fees	2,000	21,072	(19,072)
Printing and publishing	3,500	3,159	341
Insurance	5,300	3,010	2,290
Lift station expense	4,558	4,148	410
Maintenance and repair	37,427	84,987	(47,560)
Equipment rental	14,000	8,129	5,871
Miscellaneous	1,623	7,118	(5,495)
Depreciation	63,000	62,816	184
Capital outlay	<u>2,000</u>	<u>-</u>	<u>2,000</u>
TOTAL OPERATING EXPENSES	<u>247,708</u>	<u>339,293</u>	<u>(91,585)</u>
OPERATING INCOME (LOSS)	<u>121,661</u>	<u>(39,261)</u>	<u>(160,922)</u>
NONOPERATING REVENUE:			
Interest income	12,000	36,941	24,941
Miscellaneous	<u>1,500</u>	<u>3,224</u>	<u>1,724</u>
TOTAL NONOPERATING REVENUE	<u>13,500</u>	<u>40,165</u>	<u>26,665</u>
CHANGE IN NET ASSETS	<u>\$ 135,161</u>	<u>\$ 904</u>	<u>\$(134,257)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**M-25 WATER AND SEWER SYSTEM FUND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Charges for services	\$ 9,200	\$ 9,434	\$ 234
OPERATING EXPENSES:			
Depreciation	8,400	8,396	4
Audit fees		250	(250)
TOTAL OPERATING EXPENSES	<u>8,400</u>	<u>8,646</u>	<u>(246)</u>
OPERATING INCOME	<u>800</u>	<u>788</u>	<u>(12)</u>
NONOPERATING REVENUE (EXPENSES):			
Interest income	500	7,334	6,834
Bond interest and fees	(20,078)	(20,184)	(106)
Amortization		(1,768)	(1,768)
TOTAL NONOPERATING (EXPENSES)	<u>(19,578)</u>	<u>(14,618)</u>	<u>4,960</u>
(LOSS) BEFORE OTHER FINANCING SOURCES	<u>(18,778)</u>	<u>(13,830)</u>	<u>4,948</u>
OTHER FINANCING SOURCES:			
Operating transfer in	37,000	35,915	(1,085)
CHANGE IN NET ASSETS	<u>\$ 18,222</u>	<u>\$ 22,085</u>	<u>\$ 3,863</u>

VILLAGE OF SEBEWAING, MICHIGAN

**INTERNAL SERVICE FUND
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2006**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Charges for services	<u>\$ 105,750</u>	<u>\$ 94,187</u>	<u>\$ (11,563)</u>
OPERATING EXPENSES:			
Salaries and wages	13,600	11,221	2,379
Employee benefits	6,510	6,337	173
Operating supplies	1,500	445	1,055
Gas and oil	11,000	17,220	(6,220)
Audit fees	775	775	
Insurance	6,900	6,803	97
Maintenance and repair	20,000	8,457	11,543
Depreciation	<u>35,000</u>	<u>53,336</u>	<u>(18,336)</u>
TOTAL OPERATING EXPENSES	<u>95,285</u>	<u>104,594</u>	<u>(9,309)</u>
OPERATING INCOME (LOSS)	<u>10,465</u>	<u>(10,407)</u>	<u>(20,872)</u>
NONOPERATING REVENUE:			
Interest income	<u>2,000</u>	<u>4,031</u>	<u>2,031</u>
TOTAL NONOPERATING REVENUE	<u>2,000</u>	<u>4,031</u>	<u>2,031</u>
CHANGE IN NET ASSETS	<u>\$ 12,465</u>	<u>\$ (6,376)</u>	<u>\$ (18,843)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**SCHEDULE OF M-25 SEWER AND WATER CONSTRUCTION BONDS
AT MARCH 31, 2006**

MATURITY		INTEREST		
<u>DATE</u>	<u>PRINCIPAL</u>	<u>RATE</u>	<u>AMOUNT</u>	<u>TOTAL</u>
9/1/06	\$ 30,000	7.05%	\$ 9,401	\$ 39,401
3/1/07			8,344	8,344
9/1/07	35,000	7.05	8,344	43,344
3/1/08			7,110	7,110
9/1/08	40,000	7.05	7,110	47,110
3/1/09			5,700	5,700
9/1/09	40,000	7.10	5,700	45,700
3/1/10			4,280	4,280
9/1/10	40,000	7.10	4,280	44,280
3/1/11			2,860	2,860
9/1/11	40,000	7.15	2,860	42,860
3/1/12			1,430	1,430
9/1/12	40,000	7.15	1,430	41,430
TOTALS	\$ 265,000		\$ 68,849	\$ 333,849

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council
Village of Sebewaing, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Sebewaing, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Village of Sebewaing, Michigan's basic financial statements and have issued our report thereon dated July 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

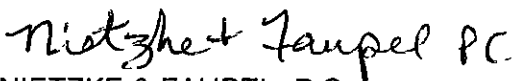
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Sebewaing, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

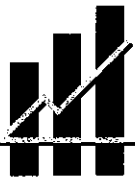
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Sebewaing, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

July 13, 2006



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Village Council
Village of Sebewaing, Michigan

Compliance

We have audited the compliance of the Village of Sebewaing, Michigan, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2006. Village of Sebewaing, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village of Sebewaing, Michigan's management. Our responsibility is to express an opinion on the Village of Sebewaing, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Sebewaing, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village of Sebewaing, Michigan's compliance with those requirements.


In our opinion, Village of Sebewaing, Michigan, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2006.

Internal Control Over Compliance

The management of the Village of Sebewaing, Michigan, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Sebewaing, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

July 13, 2006

VILLAGE OF SEBEWAING

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED MARCH 31, 2006**

There were no findings or questioned costs for the year ended March 31, 2005.

VILLAGE OF SEBEWAING

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED MARCH 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report, expresses an unqualified opinion on the financial statements of the Village of Sebewaing.
2. No reportable conditions relating to the audit of the financial statements are reported in the REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.
3. No instances of noncompliance material to the financial statements of the Village of Sebewaing, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No reportable conditions were disclosed regarding internal control over major federal award program compliance in the REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.
5. The auditor's report on compliance for the major federal award programs for the Village of Sebewaing, expresses an unqualified opinion on all major federal programs.
6. The auditor's report disclosed no instances of findings relative to the major federal award programs for the Village of Sebewaing.
7. The programs tested as major programs included:

Community Development Block Grants – CFDA 14.228
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Village of Sebewaing did not qualify as a low-risk auditee.

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

1. There were no findings related to the financial statements audit for the year ended March 31, 2006.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs related to the major federal award programs audit for the year ended March 31, 2006.

VILLAGE OF SEBEWAING

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED MARCH 31, 2006**

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>
U.S. Department of Housing and Urban Development				
Michigan Strategic Fund				
Community Development Block Grant Program				
Grant No. MSC 204004-EDIG	14.228	\$ 1,250,000	\$ 900,819	\$ 900,819

VILLAGE OF SEBEWAING

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED MARCH 31, 2006

Notes

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Village's federal awards and does not present transactions that would be included in financial statements of the Village presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.